COMPANY RESEARCH AND ANALYSIS REPORT

Scala, Inc.

4845

Tokyo Stock Exchange Prime Market

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Contents

Summary

Concentrating resources in the IT and HR businesses with the aim of achieving a V-shaped earnings recovery in FY6/25

Scala, Inc. <4845> (hereinafter, "the Company") operates under the corporate philosophy of "demonstrate ethical values," "fulfill social responsibility," and "prosper forever." Although it has been using M&As to expand its business, with a focus on IT businesses, a downturn in business results in FY6/24 prompted business structure reforms and in FY6/25 it has been working to recover results under a new management structure.

1. Overview of FY6/24 results

In continuing operations in FY6/24*, revenue decreased 9.5% year on year (YoY) to ¥10,714mn and operating loss was ¥2,155mn (profit of ¥397mn in the previous fiscal year). Although there was smooth revenue growth in the EC Business, the impact of a decrease in system development projects in the DX Business and the end of the Go To Travel Campaign and other government travel discount programs across Japan led to a decrease in revenue. The downturn in profit was mainly due to the decrease in revenue from the DX Business, as well as the recording of temporary expenses amounting to approximately ¥2.3 billion, including impairment losses associated with business restructuring, special severance payments, and a penalty payment associated with the termination of an office contract. Removing these temporary expenses results in operating loss of ¥203mn (profit of ¥359mn) on a non-GAAP basis.

* Since FY6/23, Connect Agency Inc. and readytowork Co., Ltd. (DX Business), FourHands, Inc., Sports Stories, Inc., and Broncos20 Co., Ltd. (former HR & Education Business), and J-Phoenix Research Inc. (Incubation Business) have been removed from consolidation and therefore classified as discontinued operations. Accordingly, they have been excluded from revenue and operating profit results for FY6/23 and FY6/24.

2. Outlook for FY6/25

The forecast for the FY6/25 results sees revenue decreasing by 5.7% YoY to ¥10,100mn while operating profit of ¥550mn represents a return to profitability after two fiscal years of losses. The impact of the liquidation of Leoconnect, Inc. (net sales of ¥1,049mn in FY6/24) after it became unprofitable will put downward pressure on revenues, but upward factors will include the absence of temporary expenses recorded in the previous fiscal year, a recovery in systems development projects in the DX Business, and an increase in revenue from the EC Business. The DX Business is expected to receive contributions from a large-scale systems development project for a financial services company, as well as the establishment of a new business in the health tech field together with a partner company it has been engaged in joint development with for several years. In the EC Business, in addition to the effects of increased revenue, development costs are anticipated to decrease and the introduction of AI will enhance productivity. Additionally, the HR Business will continue to see booming demand for its new graduate recruiting support service and will also receive contributions from its newly launched mid-career recruiting support service. The Company is experiencing a sense of crisis after losing some of the trust of stakeholders due to recording a significant loss in the previous fiscal year. Therefore, its primary objective is to definitely meet and even exceed its targets in an effort to regain trust. At FISCO, we think these targets are conservative, taking into account the effects of business restructuring, and it is certainly possible the Company will exceed them.

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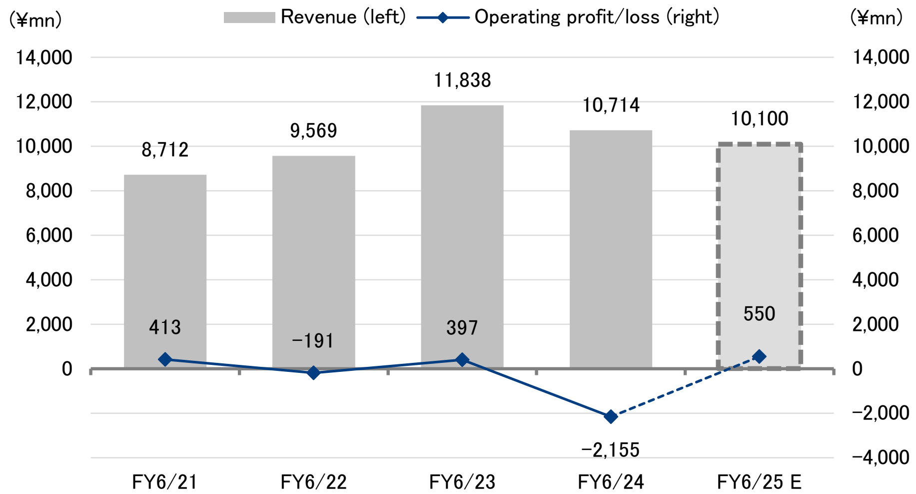
3. New management strategy and shareholder return policy

Following the downturn in business results, the Company abandoned Medium-Term Business Plan 2024-2026, which it had released in August 2023, and announced a plan to formulate a new medium-term management plan based on factors such as the recent business environment. Its new management strategies include aiming for growth centered on its IT businesses (DX Business and EC Business) and the HR Business and building a stable revenue base while engaging in activities that it was unable to implement in FY6/24, including the sale of some businesses. Furthermore, its basic shareholder return policy is to continue paying a stable dividend and from FY6/25, it will aim to return around 50% of profit before tax provided the level of retained earnings is appropriate and excluding extraordinary factors such as gains on sale of shares of subsidiaries. Under this policy, in FY6/25, it plans to reduce the amount of dividend per share from ¥37.5 in FY6/24 to ¥16.0 (profit before tax per share of 51.3%). However, it plans to begin raising the dividend amount again from FY6/26, once revenue and profit have returned to a growth trajectory.

Key Points

- Recorded a loss in FY6/24 due to the recording of temporary expenses accompanying business restructuring
- Targeting a V-shaped recovery in operating profit in FY6/25 and the highest level since FY6/21
- Aiming to return to growth under a new management structure through development centered on IT and HR businesses
- Forecasting a dividend decrease in FY6/25 following a change to dividend policy but plans to increase it again from FY6/26 onward

Results trends



Note: IFRS, continuing operations basis
Source: Prepared by FISCO from the Company's financial results

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Company profile

An IT development and services company that has been expanding its business areas through an M&A strategy

1. History

The Company was founded in December 1991 with an initial start as a sales distributor of database systems. It realized significant growth in 1999 by inheriting support services, including customers, for the Model 204* mainframe database management system license from MITSUI KNOWLEDGE INDUSTRY CO., LTD.

* Database management system (DBMS) that was developed by US-based Computer Corporation of America and Sirius Software (now, Rocket Software). Customers were large companies in Japan such as the Bank of Japan <8301> and Tokyo Electric Power Company Holdings <9501>. Demand ceased due to changes in the market environment, and the service was ended in the fall of 2016.

In 2000, the Company determined that it needed to change its business structure to continue growing amid the migration of corporate information systems from mainframes to client/servers, and started expanding its business through M&As by utilizing funds obtained from its IPO in 2001. It widely developed its own SaaS/ASP services, which are its recurring-income earnings model and steadily increased earnings.

As measures toward building a value co-creation platform promoted as a medium-term target starting in 2019, the Company established Scala Partners, Inc. in July of the same year, and then went on to expand its business activities even further by proactively conducting M&As. These M&As included making wholly owned subsidiaries of J-Phoenix Research Inc., which provides management consulting and IR support, in October, Grit Group Holdings, which provides HR & Education Business, in April 2020, EGG CO., LTD., an IT system developer, in February 2022, and Nihon Pet Small-amount Short-term Insurance Company, which offers small-amount short-term insurance, in April 2022. However, amid the deterioration in earnings, the Company has been restructuring businesses and selling subsidiaries since FY6/23.

To conduct more flexible management, the Company switched to a holding company organization in 2004, and in FY6/16, changed its accounting standards to IFRS to disclose its results. The Company moved its listing from the Tokyo Stock Exchange (TSE) First Section to the TSE Prime Market in line with the TSE's transition to new market segments in April 2022.

Company History

Date	Major event
December 1991	Founded Database Communications, Inc. (now, Scala, Inc.)
January 1999	Formed sales distribution contracts for the Japanese market with US-based Computer Corporation of America and Sirius Software (now, Rocket Software Inc.) and started Model 204 support
May 2001	Listed on the Osaka Securities Exchange's NASDAQ Japan market (now, TSE JASDAQ (Standard))
April 2003	Acquired Interscience's patent management software (product name: PatentManager) with the aim of entering the intellectual property system field
October 2003	Acquired Dbecs Co., Ltd. (now, Scala Communications, Inc.) as a subsidiary to enter the CRM field
April 2004	Acquired Vodamedia Inc. (now, Scala Communications, Inc.) as a subsidiary with the aim of entering the IVR (interactive voice response) field
September 2004	Renamed as Fusion Partners Co. in the transition to a holding company structure and established Database Communications (now, Scala Services Inc.) as a new company and transferred its business
June 2006	Merged subsidiaries Vodamedia and Dbecs and changed the company name to Digi-Ana Communications Inc. (now, Scala Communications Inc.)
November 2010	Acquired NewsWatch Inc. (now, Scala Communications, Inc.) as a subsidiary
April 2012	Merged subsidiaries Digi-Ana Communications Inc. and NewsWatch Inc. (now, Scala Communications Inc.)
May 2014	Listing transferred to the TSE Second Section
December 2014	Shares elevated to the TSE First Section
November 2015	Acquired TriAx Corp. (now, Scala Communications, Inc.) as a subsidiary
January 2016	Renamed subsidiary Database Communications, Inc. as PAREL, Inc. (now, Scala Service, Inc.)
July 2016	Acquired SOFTBRAIN Co., Ltd. as a subsidiary
December 2016	Changed trade name to Scala, Inc. Merged the subsidiaries Digi-Ana Communications Inc. and TriAx Corp. and changed the trade name to Scala Communications Inc.
August 2017	Acquired plube Co., Ltd. (now, Scala PLAYce, Inc.) as a subsidiary
March 2018	Acquired Leoconnect, Inc. as a subsidiary
November 2018	Acquired Connect Agency Inc. as a subsidiary Established Scala Next, Inc. (now, Scala Communications, Inc.)
December 2018	Established the Scala Next, Inc., (now, Scala Communications, Inc.) Mandalay branch (Myanmar)
July 2019	Established Scala Partners Inc. (now, Scala Communications, Inc.)
October 2019	Made a subsidiary of J-Phoenix Research Inc.
November 2019	Established SCL Capital LLC.
April 2020	Made a subsidiary of Grit Group Holdings Co., Ltd.
June 2020	Invested in MyanCare Co., Ltd., a health-tech company in Myanmar that provides remote medical services
August 2020	Established Scala Ace Co., Ltd. as a joint venture with ACE Data Systems Ltd., a major IT company in Myanmar (ownership ratio: 35%)
September 2020	Established Social Studio Inc. as a joint venture with Branding Technology Inc. in order to promote DX to the national and local governments (ownership ratio: 51%)
November 2020	Developed the reverse public offering proposal service called Gyaku Propo specializing in SDGs for companies' new business development
March 2021	Excluded SOFTBRAIN Co., Ltd. from the scope of consolidation due to the transfer its shares
June 2021	Established Scala Truva, Inc.
August 2021	Made a subsidiary of readytowork Co., Ltd.
November 2021	Established SOCIALX, INC.
February 2022	Made a subsidiary of EGG CO., LTD.
March 2022	Made a subsidiary of Broncos20 Co., Ltd.
April 2022	Moved its listing to the TSE Prime Market in line with the TSE's transition to new market segments Made a subsidiary of Nihon Pet Small-amount Short-term Insurance Company
April 2023	Merged subsidiaries Scala Communications, Inc. and Scala Next, Inc.
June 2023	Sold Connect Agency Inc. to Adjustone, Inc.
August 2023	Sold J-Phoenix Research Inc.
March 2024	FourHands, Inc. removed from the scope of consolidation through a share transfer
April 2024	readytowork Co., Ltd. removed from the scope of consolidation through a share transfer
June 2024	Scala Partners Inc. absorbed into Scala Communications, Inc. through an absorption-type merger Sports Stories, Inc., and Broncos20 Co., Ltd. removed from the scope of consolidation through a share transfer

Source: Prepared by FISCO from the Company's website and press releases

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Engaged in five business segments: the DX Business, HR Business, EC Business, Financial Business, and Incubation Business

2. Business description

The Company has organized its business segments into five segments— DX Business (the former IT/AI/IoT/DX Business and former Customer Support Business), HR Business (the former HR & Education Business), EC Business, Financial Business (the former Insurance Business), and Incubation Business —and discloses information on them. Looking at the composition of revenue by business segment in FY6/24, the DX Business contributed the majority share of 55.1%, followed by 21.0% for the EC Business, 11.4% for the Financial Business, 9.7% for the HR Business and 2.8% for the Incubation Business (former Investment & Incubation Businesses).

Group companies by business segment and business content

Business segment	Group company	Main business	Business restructuring details
DX Business	Scala Communications, Inc.	Provision of SaaS/ASP services, offshore development	
	EGG CO., LTD.	Development, maintenance, and network construction for the Furusato Nozei taxation system, frailty prevention projects, and other administrative systems	
	Retool, Inc.	Planning, development, and sales of cloud activity management tools	
	Scala Service, Inc.	Provision of SaaS/ASP services, call center service	→ Merged with Scala Communications
	readytowork Co., Ltd.	Development of SaaS/ASP services, offshore development	→ Share transfer in 4Q FY6/24
	Leoconnect, Inc.	Customer support consulting (call center operations, etc.)	→ Decision to liquidate made in July 2024
HR Business	Athlete Planning, Inc.	HR recruiting (new graduate recruiting, mid-career recruiting) support, etc.	
	GeaREmake, Inc.	HR recruiting (mid-career recruiting) support, etc.	Newly established in January 2024
	FourHands, Inc.	Infant education, community development support, etc.	→ Share transfer in 3Q FY6/24
	Sports Stories, Inc.	Exercise education, sports school operation, etc.	→ Share transfer in 4Q FY6/24
	Broncos20 Co., Ltd.	Basketball club team management	→ Share transfer in 4Q FY6/24
EC Business	Scala PLAYce, Inc.	Management of an EC site for the buying and selling of battle-type trading cards	
Financial Business	Nihon Pet Small-amount Short-term Insurance Company	Small-amount short-term insurance	
Incubation Business	Scala, Inc.	Investment business, strategic investment business (M&A support)	
	SOCIALX, INC.	Planning and operation of the Gyaku Propo public-private sector co-creation platform	
	SCL Capital LLC	Investment fund management	
	SCSV-1 Investment Limited Partnership	Investment fund	
	Scala Partners, Inc.	Innovation, incubation, investment	→ Merged with Scala Communications (co-creation business liquidated)

Note: As of the end of June 2024
Source: Prepared by FISCO from the Company’s results briefing materials

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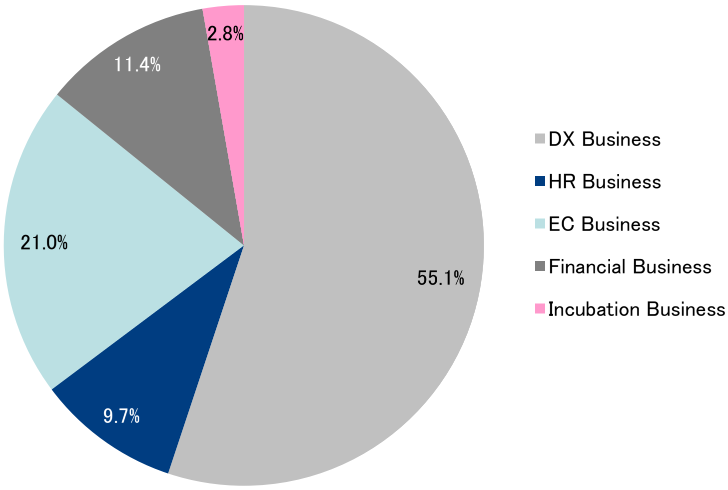
Composition by business segment (FY6/24)



Source: Prepared by FISCO from the Company's financial results

In FY6/24, the Company sold, restructured, or merged multiple subsidiaries through a process of business concentration and selection. Looking at how the subsidiaries that make up each business segment have been rearranged in FY6/25, the DX Business comprises three subsidiaries: Scala Communications, Inc., which mainly provides SaaS/ASP services and offshore development, EGG which is engaged in the development, maintenance, and network construction for the Furusato Nozei taxation system*1, frailty prevention projects*2, and other administrative systems, and Retool, Inc., which engages in the planning, development, and sales of cloud activity management tools. The call center operations of Scala Service, Inc. have been incorporated into Scala Communications through a merger. Additionally, readytowork, which developed SaaS/ASP services, was removed from the scope of consolidation through a share transfer in April 2024, and in July of the same year, a decision was made to liquidate Leoconnect, which was engaged in customer support consulting. The Company has decided to withdraw from both of these businesses.

*1 A system that enables local government workers to simply and accurately manage donor information and thank-you gifts and create various related documents. EGG was the first company in Japan to develop and offer this system and it has been introduced by more than 680 local governments, representing about a third of municipalities in Japan.

*2 Frailty is a state between good health and needing full-time nursing care (a sufferer needs support within their daily life). The concept was popularized in Japan in 2014 by the Japan Geriatrics Society. It is thought that elderly people go through a process starting from good health, before suffering from sarcopenia, in which the muscles weaken, then frailty, in which all the functions needed for daily life weaken. Finally, they end up needing nursing care.

The HR Business now comprises two subsidiaries: Athlete Planning, Inc., which operates a new graduate recruiting support service focused on university student athletes, and GeaREmake, Inc., which was newly established in January 2024 and provides a mid-career recruiting support service. In March 2024, infant education service provider FourHands, Inc. was removed from the scope of consolidation through a share transfer, while the same also happened to sports school operator Sports Stories, Inc. and its subsidiary, Broncos20, in June 2024.

The EC Business still comprises Scala PLAYce, Inc., which manages an EC site for the buying and selling of battle-type trading cards, while the Financial Business comprises Nihon Pet Small-amount Short-term Insurance Company, which develops and sells pet insurance. The Incubation Business operates the Company's strategic investment business (M&A support services), and also comprises SOCIALX, INC., which carries out the planning and operation of the Gyaku Propo public-private sector co-creation platform, and SCL Capital LLC, an investment fund management business. Scala Partners, Inc., which engaged in workation services for corporations and new business development, has been merged with Scala Communications, Inc. (and the Company has withdrawn from the workation services for corporations).

(1) DX Business

The DX Business comprises the development and supply of various types of IT services, including SaaS/ASP services (i-series), such as inquiries via the Internet and telephone, information searches, and applications, along with contract development of various IT systems and the customer support business (scheduled to be liquidated in FY6/25). SaaS/ASP services act as a stable revenue base by providing a recurring-income business model.

In the past few years, in order to accelerate the creation of new businesses and new services and to redefine its existing business, the Company has been actively advancing collaborations with partners that are experts in related technologies in various industries. To give an example, it has been developing, among other things, a public facility reservation system using digital IDs in partnership with xID Inc. and next-generation digital healthcare services through co-creation with Otsuka Pharmaceutical Co., Ltd. and has been advancing initiatives to create services.

Going forward, the Company's strategy is to accelerate growth by participating in many co-creation development projects that will lead to solutions for social issues, while for SaaS/ASP services as well, it is projected that there will be an increase in cases where it provides these services as one development project menu. The fees for SaaS/ASP services are around ¥100,000 per month, but in the case of co-creation projects, fees are more than ¥2mn per month and they have the potential to become a large-scale, recurring-income business. Lead times from the order to the start of service provision are becoming longer, which means it takes time to realize a profit, but operating efficiency is improving, so overall profitability is expected to increase as co-creation projects increase.

In addition, the customer support business operated by Leoconnect, which had the HIKARI TSUSHIN <9435> Group and its agencies as its main customers, has seen sluggish earnings over the past few years, and recovery is expected to take time. As a result, the Company decided to liquidate this business.

Description of the DX Business services

Type	Product name	Description
Information searches	i-search	Internal search engine for websites
Content management	GEAR-S	API-based website construction tool
	i-catalog	Product site management system
	i-linkcheck	Link check services
Content delivery	i-linkplus	Service for displaying links to related pages
	i-gift	Digital gift service
	Corporate news services	News distribution service for corporations
Various types of reception	SaaS-type IVR	24-hour, 365-day automated voice response
	Campaign website construction	Campaign website construction and reception
Inquiry management	i-ask	FAQ system
	i-assist	Web chatbot system
	i-livechat	Web chat system
Data management	PatentManager6	Latest patent management system
	GripManager	Contract operations management system
Authentication	i-dentify	Incoming call authentication service

Source: Prepared by FISCO from the Company's website

(2) HR Business

In the HR business, Athlete Planning provides services including a comprehensive employment support system for university student athletes, a job hunt support service specifically for female students, and a second career support service for professional athletes. The source of earnings is from the planning and management of corporate joint briefing meetings to recruit new graduates (including holding events online). This service starts selling exhibition booths to companies in June every year for events scheduled to be held from December to March of the following year. Additionally, in January 2024 it established GeaREmake, to strengthen mid-career recruiting and job change support services.

(3) EC Business

In the EC Business, Scala PLAYce buys and sells trading cards for battle-type games, and operates Card Shop - Yuyu-Tei, a reuse EC site with the functions of a capture site. The site has high name recognition in the gaming industry and is influential to the extent that it is used as a reference indicator for the pricing of used cards, and it has established itself as the industry's No. 1 EC shop in the purchase and sale of trading cards. From FY6/20, it also started purchases from overseas users and the transaction circulation value has continued to grow at a double-digit annual rate.

(4) Financial Business

The Financial Business is conducted by Nihon Pet Small-amount Short-term Insurance Company, which was made a subsidiary in April 2022. It provides the Inu to Neko no Hoken (Insurance for Dogs and Cats) insurance for pets, which features a lineup of insurance products with unique features, such as a 90% reimbursement rate.

(5) Incubation Business

The Incubation Business includes business investments by the Company, regional revitalization services in collaboration with local governments, and operational support services to facilitate M&As. It also encompasses the Gyaku Propo public-private sector co-creation platform provided by SOCIALX, as well as investment fund management by SCL Capital.

Gyaku Propo is a service private-sector companies, such as large or startup companies, can use when they want to speedily implement measures, such as ascertaining demand trends and verifying hypotheses, for a new business that solves social issues. In a conventional public offering proposal, a company aiming to win a project produces and submits a project plan to a soliciting local government with a budget, and a third party evaluates and selects a winner. Conversely, in Gyaku Propo, a company openly solicits local governments who may want to participate in the theme for solving social issues that the company plans while shouldering the costs itself. Local governments can participate by preparing and submitting proposal documents, such as demonstration experiments, in accordance with the theme. As multiple local governments may be selected, companies can also conduct many demonstration experiments. Budgets for the projects will be paid to selected local governments by companies participating in the public offering in the form of “donations.” While SOCIALX receives little revenue directly from Gyaku Propo, it has received orders for system development projects utilizing Gyaku Propo, and has positioned it as a platform for expanding public-private sector co-creation projects because it also increases opportunities for receiving orders for projects such as DX support from matched local governments.

Results trends

Recorded a loss in FY6/24 due to the recording of temporary expenses accompanying business restructuring

1. Overview of FY6/24 results

In the FY6/24 consolidated results (continuing operations basis), revenue decreased 9.5% YoY to ¥10,714mn, operating loss amounted to ¥2,155mn (a profit of ¥397mn in the previous fiscal year), loss before tax amounted to ¥2,166mn (a profit of ¥374mn), and loss attributable to owners of parent amounted to ¥2,887mn (a loss of ¥218mn).

FY6/24 consolidated results (IFRS, continuing operations)

(¥mn)

	FY6/23		FY6/24			YoY		Change vs. forecast
	Results	vs. revenue	Company forecast*	Results	vs. revenue	Change	% change	
Revenue	11,838	-	8,300	10,714	-	-1,123	-9.5%	2,414
Cost of sales	4,927	41.6%	-	4,559	42.6%	-367	-7.5%	-
SG&A expenses	4,586	38.7%	-	4,742	44.3%	155	3.4%	-
Other income/expenses	19	-	-	-2,089	-	-2,108	-	-
Gain/loss on securities related to investment business	37	-	-	117	-	79	-	-
Operating profit	397	3.4%	-1,100	-2,155	-20.1%	-2,552	-	-1,055
Profit before tax	374	3.2%	-1,100	-2,166	-20.2%	-2,541	-	-1,066
Profit attributable to owners of parent	-218	-1.8%	-2,700	-2,887	-27.0%	-2,669	-	-187

* Refers to the Company forecast announced in April 2024
Source: Prepared by FISCO from the Company’s financial results

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Revenue decreased, weighed down by a significant YoY decline of 18.7% in revenue in the mainstay DX Business, although revenue increased in the HR Business, EC Business and Incubation Business. On the profit front, all business segments recorded either a decrease in operating profit or operating loss, except for the Incubation Business, which saw its operating loss shrink slightly. This was mainly due to the Company engaging in full-scale business restructuring, including the sale of subsidiaries, following a downturn in business performance. This resulted in the recording of impairment losses totaling ¥1,961mn (up ¥1,561mn from the previous fiscal year), including impairments of goodwill and intangible assets, approximately ¥200mn in expenses associated with downsizing the head office (including a contract termination penalty, moving fees, and loss on retirement of non-current assets), and ¥193mn in expenses associated with business restructuring (special severance payments and outplacement support expenses for 53 people*). Excluding these temporary expenses results in operating loss on a non-GAAP basis of ¥203mn (profit of ¥359mn in the previous fiscal year), with the downturn mainly due to a decrease in profit accompanying the fall in revenue of the DX Business.

* At the end of FY6/24, the number of consolidated employees was 529 but this has been reduced by around 10%. About 30 of the severed employees were engineers, so in FY6/25 the Company will supplement development resources through mid-career recruiting and outsourcing.

Compared to the revised forecasts announced in April 2024, it exceeded the revenue target by ¥2,414mn as the classifying of some of its business as discontinued operations was delayed until FY6/25, but operating loss was ¥1,055mn greater than anticipated, mainly due to the recording of further impairment losses in 4Q.

Achieved revenue increases in the HR, EC, and Incubation businesses in FY6/24

2. Trends by business segment

Results by business segment

(¥mn)

		FY6/23 results	FY6/24 results	YoY		Temporary expenses
				Change	% change	
DX Business	Revenue	7,213	5,865	-1,347	-18.7%	
	Operating profit/loss	350	-1,217	-1,567	-	Impairment losses of ¥945mn, business restructuring expenses of ¥149mn
HR Business	Revenue	963	1,028	65	6.8%	
	Operating profit	286	266	-19	-6.9%	
EC Business	Revenue	2,138	2,238	100	4.7%	
	Operating profit	316	240	-76	-24.1%	
Financial Business	Revenue	1,245	1,216	-28	-2.3%	
	Operating profit/loss	-196	-818	-621	-	Impairment losses of ¥613mn
Incubation Business	Revenue	269	294	25	9.4%	
	Operating profit/loss	-203	-188	15	-	Impairment losses of ¥61mn

Note: Operating profit is based on IFRS standards, after the allocation of Company-wide costs
Source: Prepared by FISCO from the Company's financial results

(1) DX Business

In the DX Business, revenue decreased 18.7% YoY to ¥5,865mn and operating loss was ¥1,217mn (a profit of ¥350mn in the previous fiscal year). Also, on a non-GAAP basis, operating profit before the allocation of Company-wide costs fell sharply by 47.4% to ¥529mn.

In terms of results for each major company, Scala Communications posted revenue of ¥3,346mn, a decrease of 9.1% YoY and operating loss of ¥286mn (including business restructuring expenses). Even under Japanese GAAP this would be a loss of ¥166mn (profit of just over ¥100mn in the previous fiscal year). EGG posted revenue of ¥1,170mn, a decrease of 43.6%, and operating loss of ¥441mn, although this would be a profit of ¥94mn under Japanese GAAP (profit of just over ¥300mn in the previous fiscal year). This represents a decline in performance for both companies.

Results by subsidiary

(¥mn)

Company name	Revenue	Operating profit (Japanese GAAP)	Impairments, consolidated adjustments, etc.	Operating profit (IFRS)
Scala Communications, Inc.	3,346	-166	-120	-286
EGG CO., LTD.	1,170	94	-535	-441
Scala Service, Inc.	184	-43	-27	-70
Retool, Inc.	274	7	0	7
Leoconnect, Inc.	1,049	-14	0	-14

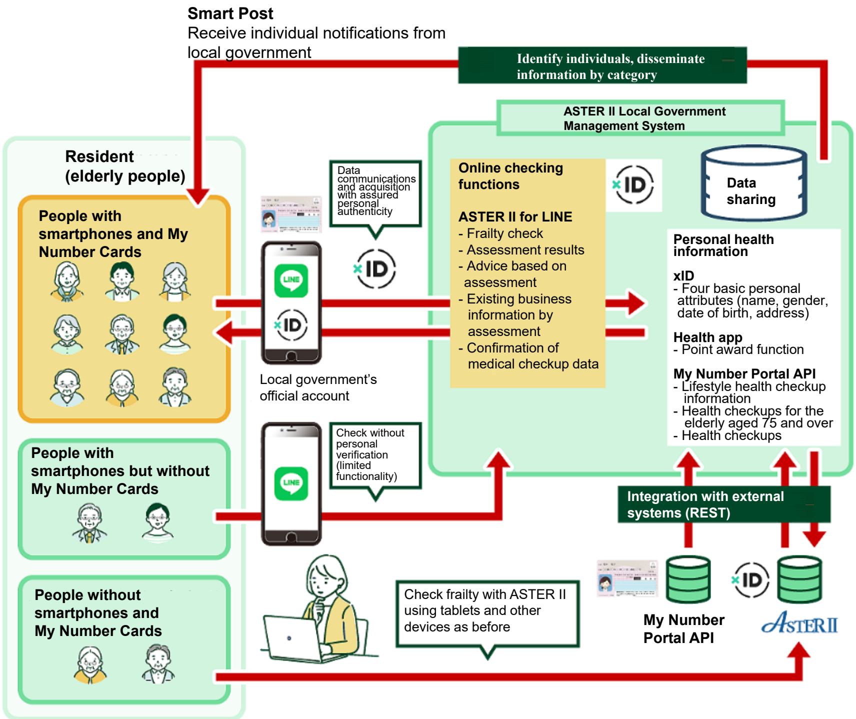
Source: Prepared by FISCO from the Company's results briefing materials

Scala Communications saw decreases in revenue and profit due to the shrinking of a new development project for a major insurance company for customer-related reasons, as well as a decline in the size of sales from ongoing projects. Although growth slowed for "i-series," a recurring revenue business, performance was firm as it managed to steadily accumulate new customers. Also, the DX personnel dispatch service business launched in June 2023 recorded revenue of around ¥100mn due to chronic digital personnel shortages, and going forward it will aim for an annual sales growth rate of 50%. Additionally, the company reduced its workforce by 53 people (including about 30 engineers) following the downturn in results, leading to business restructuring expenses of ¥149mn.

EGG saw decreases in both revenue and profit, although it made some progress on winning over projects supported by the Digital Garden City National Fund (frailty prevention projects*, etc.). These decreases were mostly due to the end of the Go To Travel Campaign and other government travel discount programs across Japan which had contributed to earnings in the previous fiscal year. In accordance with the downturn in business performance and the outlook for revenue and profit, it recorded impairment losses including a ¥150mn on goodwill and ¥492mn on intangible assets. As goodwill was ¥314mn at the end of the previous fiscal year, this represents a decrease of about 50%.

* The frailty early detection system developed by EGG uses the local government's official LINE account as a starting point to enable individuals to use their My Number for personal authentication and to conduct frailty assessment checks on their smartphones. The system is designed to prevent frailty by gathering assessment results in the local government's administration system and directing staff to provide intervention and guidance based on these results. The system's implementation is expected to curb the increase in people needing nursing care while also boosting health and lowering the nursing care cost burden.

Schematic diagram of ASTER II for LINE



Source: The Company's website

The customer support business operated by Leoconnect remained sluggish. Revenues continued to decrease, falling by 12.9% YoY to ¥1,049mn, and it recorded operating loss of ¥14mn. The Company has judged that a recovery in performance looks unlikely and it has decided to withdraw from the business (decision to liquidate made in July 2024).

(2) HR Business

In the HR Business, revenue increased 6.8% YoY to ¥1,028mn, operating profit decreased 6.9% to ¥266mn, and profit before the allocation of Company-wide costs declined 6.1% to ¥304mn. Its recruiting support services that specialize in university student athletes and female students performed firmly due to rising demand from companies for new graduate recruits, and revenue continued to grow as the Company held more recruiting events and more companies exhibited. Profit decreased due to an increase in costs associated with establishing new businesses, including a mid-career recruiting and job change support service business. The Company plans to effectively use resources cultivated in its existing business, such as member company information, to make these new businesses profitable as soon as possible. In January 2024, it established GeaREmake to operate its mid-career recruiting and job change support services, and the new company recorded revenue of ¥15mn and operating loss of ¥11mn.

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Results by subsidiary

(¥mn)

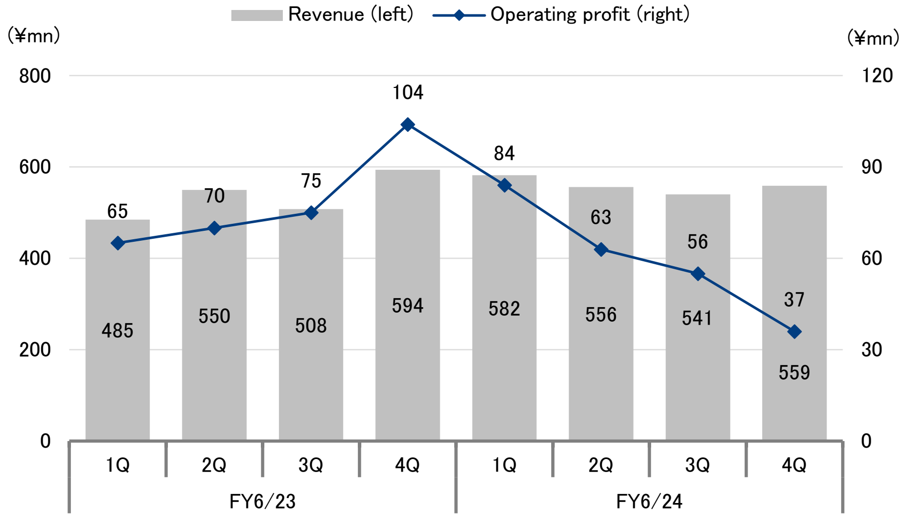
Company name	Revenue	Operating profit (Japanese GAAP)	Impairments, consolidated adjustments, etc.	Operating profit (IFRS)
Athlete Planning, Inc.	1,050	277	1	278
GeaREmake, Inc.	15	-11	0	-11

Source: Prepared by FISCO from the Company's results briefing materials

(3) EC Business

In the EC Business, revenue increased 4.7% YoY to ¥2,238mn, operating profit decreased 24.1% to ¥240mn, and profit before the allocation of Company-wide costs declined 20.1% to ¥303mn. This represents the first decline in profits since the Company consolidated the business. With the market scale for trading cards expanding every year, the Company worked to implement digital marketing initiatives such as Search Engine Optimization (SEO) and improve usability by enhancing user interface and user experience (UI/UX), and it completely redesigned the EC website Card Shop – Yuyu-Tei in September 2023. These and other measures have resulted in the smooth growth of member users, leading to an increase in revenue. However, on a quarterly basis, revenue decreased 5.9% YoY to ¥559mn in 4Q, putting a brake on this growth. This was because demand for some titles, which had been booming in the previous fiscal year, cooled due to changes in the external environment and the business was too dependent on these titles. The decrease in profit was mainly due to system renewal and improvement costs and active consideration concerning the introduction of AI technology, which led to an increase in development costs. Regarding AI, the Company has started introducing AI-based image recognition solutions to handle some of the delivery processes at its distribution centers, and this is expected to contribute to improved productivity in the future.

Trends in quarterly results in the EC Business



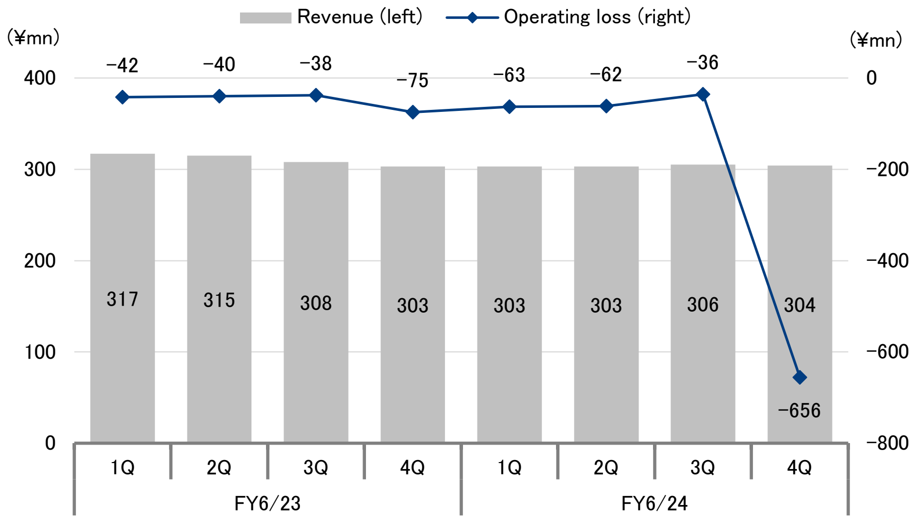
Source: Prepared by FISCO from the Company's financial results

(4) Financial Business

In the Financial Business, revenue decreased 2.3% YoY to ¥1,216mn, and there was operating loss of ¥818mn (a loss of ¥196mn in the previous fiscal year). Operating loss before allocation of Company-wide costs on a non-GAAP basis decreased slightly to ¥169mn (a loss of ¥160mn in the previous fiscal year). Although the number of contracts held reached a record high due to activities to promote sales of high-margin new products, overall revenue decreased due to a decline in the amount of premium per contract. In terms of profit, efforts to review sales agencies*1 and tighten payment standards led to continued improvement of the insurance loss ratio*2, but advanced investment in the development of new products and the accumulation of costs associated with marketing activities, including a website renewal, resulted in a slight widening in operating loss on a non-GAAP basis. Also, due to factors such as the impact of delayed progress on enhancing profitability, it recorded impairment losses of ¥355mn on goodwill and ¥258mn on other intangible assets in 4Q. The entire amount of goodwill was impaired.

*1 The Company is working to eliminate agencies with poor sales efficiency (agencies with low policy continuation rates) and acquire new agencies (including online agencies).
*2 Insurance loss ratio: Claims paid divided by premium income

Trends in quarterly results in the Financial Business



Source: Prepared by FISCO from the Company's financial results

(5) Incubation Business

In the Incubation Business, revenue grew 9.4% YoY to ¥294mn, operating loss was ¥188mn (a loss of ¥203mn in the previous fiscal year), and operating loss before allocation of Company-wide costs on a non-GAAP basis was ¥190mn (a loss of ¥235mn).

Looking at each company, the Company recorded revenue of ¥1,121mn and an operating profit under Japanese GAAP of ¥42mn. Under IFRS, it recorded operating loss of ¥2,271mn due to the recording of a loss on valuation of shares of subsidiaries Scala Service and Nihon Pet Small-amount Short-term Insurance Company of ¥1,005mn and a ¥440mn reversal of deferred tax assets as temporary expenses (a majority of revenue is cancelled out as intra-Group transactions and temporary expenses have no effect on consolidated business results). Looking at businesses, the M&A implementation support service established as a new business is beginning to accumulate results. But the scale of revenue is still small, in the tens of millions of yen range, and operating profit decreased due to the burden of advanced investments, including service development costs.

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SOCIALX performed steadily, recording revenue of ¥187mn and operating profit of ¥50mn. Gyaku Propo operated smoothly, providing support for the creation of new businesses that solve social issues through public-private sector co-creation, while the Company also advanced horizontal service development, including by operating the Public-Private Sector Co-creation Acceleration Program SOCIALX Acceleration, which aims to create and support startups that solve social issues, as a selected entity of the Startup Support and Development Project by Diverse Entities (TOKYO SUTEAM)*, and by supporting similar initiatives in Okinawa and Gunma prefectures. These kinds of initiatives are attracting attention, and it is starting to see results from projects including several startups established in collaboration with regional financial institutions. In addition to this, it is reviewing the future profitability of some of its businesses and it recorded impairment losses of ¥61mn on intangible assets.

* The Tokyo Metropolitan Government issued an open call for and chose “selected entities,” which are business enterprises that will support startups in collaboration with the Tokyo Metropolitan Government. The selected entities will provide a varied range of support to startups and those seeking to start businesses over a 1.5-year period, leveraging their ideas, networks, fields, and other strengths, in collaboration with the Tokyo Metropolitan Government and other selected entities. The Tokyo Metropolitan Government will pay a contractual fee based on the results of the selected entities’ activities. The amount of the contractual fee will be determined based on an evaluation by an Evaluation Committee comprised of outside experts. This evaluation will be centered on fulfillment of KPIs set by the selected entities and the success of the project as a whole.

Results by subsidiary

(¥mn)

Company name	Revenue	Operating profit (Japanese GAAP)	Impairments, consolidated adjustments, etc.	Operating profit (IFRS)
Scala, Inc.	1,121	42	-2,313	-2,271
SOCIALX, INC.	187	50	0	50
SCL Capital LLC	14	13	11	24
SCSV-1 Investment Limited Partnership	194	28	73	101

Source: Prepared by FISCO from the Company’s results briefing materials

Streamlining assets through the implementation of business structure reforms

3. Financial condition and business indicators

Looking at the financial condition at the end of FY6/24, total assets were down ¥5,616mn compared to the end of the previous fiscal year to ¥12,699mn. In current assets, there was a decrease in cash and cash equivalents of ¥923mn. In non-current assets, there was a decrease in right-of-use assets of ¥1,456mn accompanying business restructuring efforts as well as decreases in goodwill of ¥1,012mn, intangible assets of ¥1,049mn, and deferred tax assets of ¥325mn.

Total liabilities decreased ¥2,096mn from the end of the previous fiscal year to ¥8,130mn. This was mainly due to decreases in lease liabilities of ¥1,496mn, interest-bearing debt of ¥212mn, and deferred tax liabilities of ¥255mn. Total equity declined ¥3,519mn to ¥4,569mn. This decrease was mainly due to loss attributable to owners of parent of ¥2,887mn in addition to outlays of ¥647mn for dividend payments.

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Looking at business indicators, the Company streamlined its assets through the recording of impairment losses, including on goodwill, following the implementation of business structure reforms. The incurrence of losses and payment of dividends also decreased equity, so the equity attributable to owners of parent ratio fell from 42.8% at the end of the previous fiscal year to 34.2%. The Company's overall financial condition temporarily worsened, including the interest-bearing debt ratio increasing from 76.6% at the end of the previous fiscal year to 133.5%. However, net cash (cash and deposits minus interest bearing debt) remained positive at the end of FY6/24 at ¥1,027mn, despite having been on a downward trend since peaking at ¥3,835mn at the end of FY6/21, and financial soundness is considered to be maintained. Although the Company intends to carry out the liquidation or sale of some of its businesses in FY6/25 as part of business restructuring efforts, the majority of these reforms were carried out in FY6/24. Therefore, going forward it will concentrate in improving business results and restrengthening its financial base, so indicators that demonstrate management soundness are expected to improve.

Consolidated statement of financial position (IFRS) and business indicators

(¥mn)

	FY6/21	FY6/22	FY6/23	FY6/24	Change
Current assets	12,991	12,030	10,280	9,106	-1,174
Cash and cash equivalents	9,809	9,625	7,740	6,817	-923
Non-current assets	7,338	8,786	8,035	3,593	-4,441
Goodwill	1,949	2,356	1,990	978	-1,012
Total assets	20,330	20,816	18,316	12,699	-5,616
Total liabilities	9,859	11,810	10,227	8,130	-2,096
Interest-bearing debt	5,973	6,951	6,002	5,790	-212
Total equity	10,470	9,006	8,089	4,569	-3,519
Equity attributable to owners of parent	10,162	8,687	7,832	4,338	-3,493
Non-controlling interests	308	318	257	231	-26
Business indicators					
Stability					
Equity attributable to owners of parent ratio	50.0%	41.7%	42.8%	34.2%	-8.6pp
Interest-bearing debt ratio	58.8%	80.0%	76.6%	133.5%	56.9pp
Net cash	3,835	2,674	1,737	1,027	-710

Source: Prepared by FISCO from the Company's financial results

Outlook

Targeting a V-shaped recovery in operating profit in FY6/25 and the highest level since FY6/21

1. Outlook for FY6/25

In its forecast for the FY6/25 business results, the Company is aiming for a V-shaped recovery with revenue decreasing by 5.7% YoY to ¥10,100mn operating profit of ¥550mn (a loss of ¥2,155mn in the previous fiscal year), profit before tax of ¥540mn (a loss of ¥2,166mn), and profit attributable to owners of parent of ¥340mn (a loss of ¥2,887mn). It is anticipating positive results for operating profit and profit before tax for the first time in two fiscal years and for profit attributable to owners of parent for the first time in four fiscal years. The results for operating profit and profit before tax also represent the highest level since FY6/21. Although revenue is forecast to decrease, this is because of the absence of contributions from Leoconnect (net sales of ¥1,049mn in FY6/24). Revenue on a continuing operations basis is expected to increase for the first time in two fiscal years.

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FY6/25 consolidated results forecast (IFRS)

(¥mn)

	FY6/24 results	FY6/25 Company forecast	YoY Change	YoY % change
Revenue	10,714	10,100	-614	-5.7%
Operating profit/loss	-2,155	550	2,706	-
Profit/loss before tax	-2,166	540	2,707	-
Profit/loss attributable to owners of parent	-2,887	340	3,228	-
Profit/loss per share (¥)	-166.53	19.61		

Source: Prepared by FISCO from the Company's financial results

Furthermore, under its new management structure, the Company has formulated a management policy that aims to realize growth with a focus on IT (including the EC Business) and HR businesses and it has shown it will consider selling or liquidating other businesses. Therefore, revenues could change in accordance with this activity. However, in terms of profit, the Company has betrayed the expectations of investors in the past by failing to meet results targets, so it has set conservative targets this time and the forecasts announced for each type of profit represent a minimum amount that the Company will aim to exceed. In actuality, the Company is forecasting operating profit to increase by ¥2,705mn, but this includes an increase of about ¥2.3bn due to the absence of temporary expenses recorded in the previous fiscal year, including impairment losses totaling ¥1,961mn, ¥200mn in expenses associated with downsizing the head office, and ¥193mn in expenses associated with business restructuring (special severance payments and outplacement support expenses, etc.), and expenses are also expected to decrease greatly, including a ¥200mn reduction in rent after moving to a smaller office. This means that the Company actually only has to increase operating profit by about ¥200mn to meet its target, which gives a very conservative impression.

Forecast for considerable improvement in profits in the DX and Financial businesses

2. Outlook by business segment

Results outlook by business segment

(¥mn)

		FY6/24 results	FY6/25 forecast	YoY Change	YoY % change
DX Business	Revenue	5,865	5,000	-865	-14.8%
	Operating profit/loss	-1,217	465	1,683	-
HR Business	Revenue	1,028	1,213	185	18.0%
	Operating profit	266	247	-19	-7.1%
EC Business	Revenue	2,238	2,515	277	12.4%
	Operating profit	240	377	137	57.1%
Financial Business	Revenue	1,216	1,077	-139	-11.4%
	Operating profit/loss	-818	-170	649	-
Incubation Business	Revenue	294	347	53	17.9%
	Operating profit/loss	-188	-55	134	-

Note: Operating profit is based on IFRS standards, after the allocation of Company-wide costs
Source: Prepared by FISCO from the Company's results briefing materials

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(1) DX Business

In the DX Business, the Company is forecasting revenue to decrease by 14.8% YoY to ¥5,000mn and operating profit of ¥465mn (a loss of ¥1,217mn in the previous fiscal year). As mentioned previously, the liquidation of Leoconnect will result in a ¥1,049mn decrease in revenue, but revenue on a continuing operations basis is expected to increase 3.1%.

At Scala Communications revenues will increase due to steady performance in the recurring revenue business "i-series," as well as revenue contributions from a systems development project for a financial services company at a scale of hundreds of millions of yen*, and increased revenues from the DX personnel dispatch service, xID, and other collaborative projects with other companies (a facility reservation system linked to digital IDs, a smart healthcare platform, livestock industry DX, etc.). Operating profit is also expected to return to a positive value (a loss of ¥286mn in the previous fiscal year). The business targeting insurance companies, which was a factor in the decrease in revenues in the previous fiscal year, is aiming to recover through sales proposals by top salespeople, but the results forecast is conservative.

* A smartphone app-based auto loan service. The Company has also received orders for multiple other development projects from the same customer, which are expected to generate high levels of sales from FY6/26 onward.

Smart Healthcare Platform, which has been developed as a co-creation project with Otsuka Pharmaceutical and Sompo Japan Insurance Inc. since 2022, is predicted to start a full-scale service rollout in autumn 2024. This service provides users with a health maintenance and promotion program and simple surveys on their everyday lives though a smartphone app, allowing them to visualize their current health status and identify future health risks, as well as giving them the option to purchase Foods for Specified Health Uses*. In this way, the service helps them improve daily habits and adapt their lifestyles. The Company will be responsible for the development, maintenance, and operation of the system and operation of the service, among other tasks. Sales activities will be carried out by Otsuka Pharmaceutical and Sompo Japan Insurance, which plan to promote sales of the service not only to corporations and organizations engaged in health and productivity management, but also to pharmacists at drugstores and dispensing pharmacies as a tool for providing health advice. The Company will receive system development fees and a portion of monthly usage fees.

* Otsuka Pharmaceutical's Kenja-no-shokutaku Double Support.

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For livestock DX, in January 2023 the Company began providing U-Medical Support, a comprehensive medical treatment support tool with functions including remote treatment, electronic medical records and generating instruction documents, jointly developed with desamis Co., Ltd. and Mitsui Sumitomo Insurance Company, Limited. The cows' health condition is grasped through U-motion®*1, a cow behavior monitoring system developed by desamis. When a change in the cow's condition is observed but a veterinarian is unable to attend on-site, dairy farmers can use the U-Medical Support smartphone app to contact a veterinarian and request remote treatment. Therefore, the use of U-Medical Support is expected to be effective in preventing further deterioration. As a further benefit, the system also helps reduce the workload of veterinarians. There are around 1.37mn dairy cows in Japan, and U-motion® is used for around 100,000 of them. The deployment of U-Medical Support is progressing steadily through desamis. With U-Medical Support, a fixed proportion of monthly usage fees*2 paid by veterinarians is recorded as the Company's sales, so the contribution to results immediately after its launch has been minimal, but the service is expected to contribute as a stable source of revenue as the number of facilities using it increases and through horizontal development. Going forward, it is considering collaborating with desamis over the development of services targeting dairy farmers.

*1 A service that grasps a cow's health condition in real time by recording its primary actions, including rumination, movement, lying down and standing up, 24 hours a day, 365 days a year through a sensor attached to its neck.
*2 Monthly fees are ¥22,000 per account and ¥55,000 per business establishment, but dairy farmers can use the service for free. It is possible that rates will change as functions are added. Japan has around 4,000 veterinary facilities involved in treating livestock.

The business result forecast for EGG is also conservative, with revenue expected to decrease by about 20% due to the absence of sales associated with government travel discount programs across Japan, which ended during the previous fiscal year, and a downtrend regarding the Furusato Nozei taxation system. On the other hand, operating profit under IFRS is expected to return to a positive result in the tens of millions of yen range (a loss of ¥441mn in the previous fiscal year) due to the absence of impairment losses. In regard to frailty prevention projects for local governments, the Company has submitted estimates for consideration in the fiscal 2025 budget to 2.5 times more local governments than in the previous year, and if these proposals are adopted, it will contribute to sales. In Yonago City (Tottori Prefecture), which is already using the system, more than half of elderly residents are using the app and the Company is working with the local government to encourage usage, including adding a new health points system. The Company has been engaged in frailty prevention projects for six years and it is using its introduction and operating expertise as a strength to boost sales. The average amount of revenue per local government project includes ¥10-15mn in app development fees and ¥300,000-400,000 in monthly usage fees, and it is also working to provide additional services such as introduction support and ongoing assistance support.

(2) HR Business

The HR Business is forecasting revenue to increase by 18.0% YoY to ¥1,213mn and operating profit to decrease 7.1% to ¥247mn. Growth is expected in the employment support system for university student athletes as booming demand from companies for new graduate recruiting continues. Also, although revenue from the mid-career recruiting support service is forecast to still be small, in the tens of millions of yen range, the Company plans to effectively use the base of member companies it has cultivated in the new graduate recruiting business to grow the service. Additionally, operating profit is forecast to decrease, but this is because of an increase in the allocation of costs to this business segment following a change in standards for allocating Company-wide costs. Operating profit before allocation of Company-wide costs is forecast to increase.

(3) EC Business

The EC Business is forecasting revenue to increase by 12.4% YoY to ¥2,515mn and operating profit to increase 57.1% to ¥377mn. As the market for trading card games continues to grow, the Company plans to carry out balanced purchasing activities to reduce the impact of fluctuations in demand for specific titles, and it will grow revenues by undertaking systems development projects in the trading card industry. The growth in operating profit will be mainly due to the effects of increased revenue and efforts to enhance the sale of high-margin products, as well as a decrease in development expenses and the streamlining of operational costs accompanying the introduction of image recognition technology. The operating profit margin is forecast to recover to 15.0%, which is roughly in line with levels recorded two years ago. It is also advancing development of an AI-powered purchase appraisal system but it has yet to specify the timing of its introduction.

(4) Financial Business

The Financial Business is forecasting revenue to decrease by 11.4% YoY to ¥1,077mn, while operating loss is expected to shrink to ¥170mn (a loss of ¥818mn in the previous fiscal year) due to the absence of impairment losses. The fall in revenue will be mainly due to an increase in the proportion of total sales occupied by new products with low average unit prices. It will also continue to record operating loss as the burden of fixed costs remains heavy.

(5) Incubation Business

The Incubation Business is forecasting revenue to increase by 17.9% YoY to ¥347mn, while operating loss is expected to shrink to ¥55mn (a loss of ¥188mn in the previous fiscal year) due to the absence of impairment losses. Factors behind the increase in revenue include the continued increase in local government projects, as well as a growing number of administration projects for nationwide acceleration programs (average revenue of ¥30-40mn per project) and an increase in revenue from the M&A ongoing assistance support business. On the profit side, it will reduce the amount of loss by optimizing costs. The Company has frozen all new investments in the fund-based investment business, with the intention of managing existing investment projects until they reach maturity.

Aiming to return to growth under a new management structure through development centered on IT and HR businesses

3. New management policy and strategy

The Company announced a three-year medium-term management plan (FY6/24-FY6/26) in August 2023, but as results diverged greatly from forecasts at the time of formulation, the Company abandoned the plan in April 2024 and switched to a new management structure, including changing the Executive Officer & President, and began implementing business structure reforms. It plans to make an announcement once these reforms have been completed.

In its management policy for FY6/25, it has placed the highest priority on winning back the trust of stakeholders by ensuring management soundness and transparency. As measures to enhance corporate value, it plans to establish a stable revenue base and grow revenues and profits by focusing on its mainstay IT businesses (DX Business and EC Business), HR Business, and public-private sector co-creation consulting business, including cultivating new markets and further developing existing markets in each business area.

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Its management strategies will be advanced under the three themes of “practice highly transparent information disclosure and thorough governance,” “take a customer-centric approach,” and “practice social contribution and sustainable management.” Priority measures include strengthening human resources development and organizational capabilities, innovating technology and enhancing quality, and advancing public-private sector co-creation. Over the last few years, the Company has grown the scope of its business by actively pursuing M&As, but it could be said that this has dispersed its resources and weakened the profitability of its core DX Business. However, this time it has advanced a process of business concentration and selection through business restructuring, and we at FISCO think it is highly possible that these efforts will lead to a recovery in the profitability of the DX Business. Additionally, the governmental DX field has plenty of growth potential, and it likely that opportunities to capture demand through joint projects with partner companies and public-private sector co-creation projects will continue to increase. If the Company handles these kinds of initiatives smoothly, we think its business results will return to a growth trajectory.

FY6/25 management policy and strategy

<table>
<tr><td>Management policy</td><td>Main policy</td><td colspan="3">Ensure management soundness and transparency</td></tr>
<tr><td></td><td></td><td colspan="3">• Maintain a stable financial foundation and aim to enhance corporate value through efficient asset management
• ·Win back the trust of stakeholders by practicing highly transparent information disclosure and thorough governance</td></tr>
<tr><td></td><td>Measures to enhance corporate value</td><td colspan="3">Realize stable growth through business development focused on concentration and selection</td></tr>
<tr><td></td><td></td><td colspan="3">• Focus on establishing a stable earnings base by focusing on the mainstay IT businesses, HR Business, and public-private sector co-creation consulting business
• Leverage expertise in each business area to cultivate new markets and further develop existing markets</td></tr>
<tr><td>Management strategies</td><td>Standards for concentration and selection</td><td>Practice highly transparent information disclosure and thorough governance</td><td>Take a customer-centric approach</td><td>Practice social contribution and sustainable management</td></tr>
<tr><td></td><td></td><td>• Realize highly transparent information disclosure and thorough governance by strengthening not only resources for service provision, but also Company-wide functions</td><td>• Aim to raise customer satisfaction by responding swiftly and accurately to customer needs
• Build long-term relationships of trust with customers to form lasting business partnerships</td><td>• Contribute to the realization of a sustainable society by practicing management which values environmental conservation, social contribution, and governance (ESG)
• Work to co-exist with local communities through corporate social responsibility (CSR) activities</td></tr>
<tr><td></td><td>Provided value</td><td>Effects of human resources development and organizational capabilities (1)</td><td>Innovate technology and enhance quality (1)</td><td>Advance public-private sector co-creation (1)</td></tr>
<tr><td></td><td></td><td>• Enhance productivity by developing human resources who possess expertise and leadership ability
• Generate innovation by promoting diversity and inclusion and strengthen oversight functions</td><td>• Provide innovative software solutions
• Provide services with global-level high standards of quality</td><td>• Contribute to solving social issues by supporting the digitalization of public services and actively participating in regional revitalization projects</td></tr>
<tr><td></td><td>Resources</td><td>Effects of human resources development and organizational capabilities (2)</td><td>Innovate technology and enhance quality (2)</td><td>Advance public-private sector co-creation (2)</td></tr>
<tr><td></td><td></td><td>• Education and training programs that support the growth of individuals
• Workplace environments that enable people with diverse backgrounds to participate actively</td><td>• Cutting-edge IT technologies
• Frameworks for the ongoing enhancement of service quality</td><td>• Collaborations with governmental organizations, local governments, and private sector companies</td></tr>
<tr><td></td><td>Measures</td><td>Effects of human resources development and organizational capabilities (3)</td><td>Innovate technology and enhance quality (3)</td><td>Advance public-private sector co-creation (3)</td></tr>
<tr><td></td><td></td><td>• Introduce programs that support employee career development and clarify paths for enhancing skills and advancing careers
• Aim to improve work-life balances by promoting flexible workstyles</td><td>• Incorporate cutting-edge IT technologies
• Build frameworks for the ongoing enhancement of service quality</td><td>• Strengthen collaborations with governmental organizations, local governments, and private sector companies</td></tr>
</table>

Source: Prepared by FISCO from the Company’s results briefing materials

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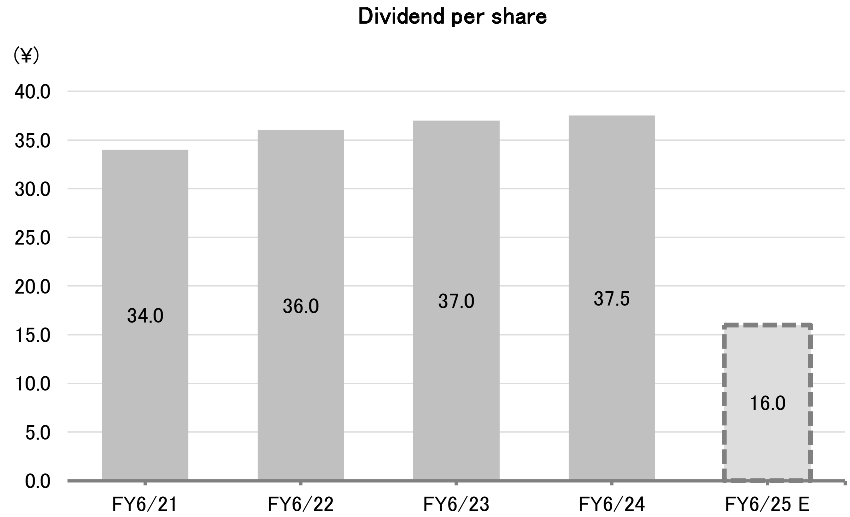
Shareholder return policy

Forecasting a dividend decrease in FY6/25 following a change to dividend policy but plans to increase it again from FY6/26 onward

The Company's basic shareholder return policy is to stably and continuously pay dividends and it has aimed to continually increase dividends under this policy. In FY6/24, although the Company incurred a large amount of impairment losses due to business restructuring, it still raised the amount of dividend per share by ¥0.5 YoY to ¥37.5 under this policy. In regard to its dividend policy for FY6/25 and beyond, it will aim to return around 50% of profit before tax provided the level of retained earnings is appropriate, excluding extraordinary factors such as gains on sale of shares. Therefore, in FY6/25, it plans to pay a dividend per share of ¥16.0 (profit before tax per share of 51.3%). Going forward, it will aim to increase the dividend amount provided profits, excluding extraordinary factors, continue to grow. It also intends to consider acquiring treasury shares as appropriate in order to improve capital efficiency and implement a flexible capital policy in response to its business environment.



Source: Prepared by FISCO from the Company's financial results

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FISCO

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